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# Legislative Audit Division

State of Montana

Report to the Legislature

September 1995

# Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1995

## Montana Arts Council

This report contains an unqualified opinion and no recommendations to the council.

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## FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1993 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Legislative Audit Division
Room 135 State Capitol
PO Box 201705
Helena MT 59620-1705

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STATE OF MONTANA

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LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:
MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

September 1995

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Arts Council for fiscal years 1993-94 and 1994-95. The report contains no recommendations. The council's written response to the audit is included in the back of the report.

We thank the director and staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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# Legislative Audit Division

**Financial-Compliance Audit**
**For the Two Fiscal Years Ended June 30, 1995**

# Montana Arts Council

Members of the audit staff involved in this audit were Brenda Bokovoy, Jeane Carstensen-Garrett, Wayne Guazzo, and Cindy S. Jorgenson.

# Table of Contents


| | | |
|---|---|---|
| | Appointed and Administrative Officials | ii |
| **Introduction** | Introduction | 1 |
| | Background | 1 |
| **Prior Audit Recommendations** | Prior Audit Recommendations | 3 |
| **Independent Auditor's Report & Agency Financial Schedules** | Independent Auditor's Report | A-3 |
| | Schedule of Changes in Fund Balances for the Two Fiscal Years Ended June 30, 1995 | A-4 |
| | Schedule of Budgeted Revenue and Transfers In - Estimate & Actual for the Two Fiscal Years Ended June 30, 1995 | A-5 |
| | Schedule of Budgeted Program Expenditures and Transfers Out By Object and Fund - Budget & Actual for the Two Fiscal Years Ended June 30, 1995 | A-6 |
| | Notes to the Financial Schedules | A-7 |
| **Agency Response** | Montana Arts Council | B-3 |

## Appointed and Administrative Officials

### Montana Arts Council

| | | Term Expires |
|---|---|---|
| Bill Frazier (Chair) | Livingston | 2000 |
| Carol Novotne (Vice-Chair) | Fort Harrison | 1997 |
| Carol Brenden | Scobey | 1997 |
| Ann Cogswell | Great Falls | 1998 |
| Beth Collier | Shelby | 1997 |
| Diane M. Davies | Polson | 1998 |
| Kathy Doeden | Miles City | 2000 |
| Monte Dolack | Missoula | 2000 |
| John Dudis | Kalispell | 1997 |
| Rick Halmes | Billings | 1998 |
| James M. Haughey | Billings | 1997 |
| Jack Hines | Big Timber | 2000 |
| Sody Jones | Billings | 1998 |
| Marilyn Olson | Sidney | 2000 |
| Jackie Parsons | Browning | 1998 |

### Administrative Officials

| | |
|---|---|
| Arlynn Fishbaugh | Executive Director |
| Carleen Layne | Accountant |

# Introduction

## Introduction

We performed a financial-compliance audit of the Montana Arts Council (council) for the two fiscal years ended June 30, 1995. The objectives of the audit were to:

1. Determine the council's compliance with applicable laws and regulations.
2. Make recommendations for improvement in the council's management and internal controls.
3. Determine if the council's financial schedules present fairly the results of its operations for the two fiscal years ended June 30, 1994 and 1995.
4. Determine implementation status of prior audit recommendations.

The report contains no recommendations to the council. Areas of concern deemed not to have a significant effect on the successful operations of the council are not included in this report but have been discussed with management.

## Background

The Montana Arts Council was established as a state agency in 1967. The council consists of 15 members who are appointed by the governor, confirmed by the Senate, and serve a five-year term. The council members are responsible for the governance, management, and control of the agency. The council's duties are to:

1. Encourage the study and presentation of the arts throughout the state.
2. Stimulate public interest and participation in the arts.
3. Cooperate with public and private institutions engaged in cultural and aesthetic activities.
4. Foster public interest in the cultural heritage of Montana and expand the state's cultural resources.
5. Encourage and assist freedom of artistic expression.

Programs such as Artists in Schools/Communities, Governor's Awards for the Arts, First Book Award, and Montana Folklife are designed by the council to expose Montanans to their artistic and cultural heritage. Organizational grants, fellowships, technical assistance and networking efforts help support both individual artists and art and cultural organizations.

The council has three sources of funding: federal grants from the National Endowment for the Arts, investment earnings from its Cultural Trust Fund, and support from the General Fund. General Fund support was $122,837 and $113,116 in fiscal years 1993-94 and 1994-95, respectively. The council had approximately ten full-time equivalent employees in fiscal year 1994-95.

The council is authorized to use investment income from the Cultural Trust Fund for the protection of works of art in the state capitol and for other cultural and aesthetic projects. The trust fund's corpus must remain intact, and increases by the amount of the annual coal tax revenue allocations. Section 15-35-108, MCA, allocates 0.63 percent of coal severance tax revenues to the Cultural Trust Fund. The Cultural Trust Fund allocations for fiscal years 1993-94 and 1994-95 were $259,808 and $263,960, respectively. Cultural and Aesthetics grants are available to cultural organizations and units of state, local, and tribal governments. The council reviews all applications for cultural and aesthetics grants and recommends a prioritized list to the legislature for funding. The legislature determines which organizations will receive grants from the trust fund investment earnings and the council awards the money as specified by the legislature. The 53rd Legislature in 1993, approved funding for 101 cultural and aesthetic projects in the 1995 biennium totalling approximately $1.3 million.

# Prior Audit Recommendations

**Prior Audit Recommendations**

Our office performed the audit of the Montana Arts Council for the two fiscal years ended June 30, 1993. The audit report contained four recommendations which are still applicable to the council. The council concurred with and implemented all four recommendations.

# Independent Auditor's Report & Council Financial Schedules

STATE OF MONTANA

# Office of the Legislative Auditor

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Performance Audit

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Montana Arts Council for each of the two fiscal years ending June 30, 1994 and 1995, as listed in the table of contents. The information contained in these schedules is the responsibility of the council's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the council's assets and liabilities.

In our opinion, the schedules referred to above present fairly, in all material respects, the result of operations and changes in fund balances of the Montana Arts Council for the two fiscal years ended June 30, 1994 and 1995, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 3, 1995

MONTANA ARTS COUNCIL
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1995

| | General Fund | Special Revenue Fund | Nonexpendable Trust Fund |
|---|---|---|---|
| FUND BALANCE: July 1, 1993 | $ 0 | $ 20,919 | $6,814,576 |
| ADDITIONS | | | |
| Fiscal Year 1993-94 | | | |
| Support From State of Montana | 122,837 | | |
| Budgeted Revenue & Transfers In | | 1,288,954 | 490,758 |
| Prior Year Revenue Adjustments | | 6,062 | |
| Prior Year Transfer In Adjustments | | 103,673[1] | |
| Cash Transfers In | | | 259,808[1] |
| Fiscal Year 1994-95 | | | |
| Nonbudgeted Revenue & Transfers In | 16,914 | | |
| Prior Year Expenditure Adjustments | | 5,435 | |
| Support From State of Montana | 113,116 | | |
| Budgeted Revenue & Transfers In | | 1,263,013 | 500,577 |
| Prior Year Revenue Adjustments | | 3,719 | 784 |
| Cash Transfers In | | | 263,960[1] |
| Total Additions | 252,867 | 2,670,856 | 1,515,887 |
| REDUCTIONS | | | |
| Fiscal Year 1993-94 | | | |
| Budgeted Expenditures & Transfers Out | 122,837 | 1,404,775 | |
| Direct Entries to Fund Balance | | (1,595) | |
| Nonbudgeted Expenditures & Transfers Out | | | 491,150 |
| Nonbudgeted Prior Year Transfers Out Adjustments | | | 103,673[1] |
| Prior Year Expenditure Adjustments | | (1,370) | |
| Fiscal Year 1994-95 | | | |
| Budgeted Expenditures & Transfers Out | 130,030 | 1,299,922 | |
| Prior Year Expenditures | | (4,715) | |
| Prior Year Transfers Out | | (4,309) | |
| Nonbudgeted Expenditures & Transfers Out | | | 499,401 |
| Total Reductions | 252,867 | 2,692,708 | 1,094,224 |
| FUND BALANCE: June 30, 1995 | $ 0 | $ (933)[2] | $7,236,239 |

1 See note 5 on page A-9.
2 See note 7 on page A-9.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-7.

MONTANA ARTS COUNCIL
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1995

| | Grants, Contracts, & Donations | Other Financing Sources | Federal | Investment Earnings | Total |
|---|---|---|---|---|---|
| Fiscal Year 1993-94 | | | | | |
| SPECIAL REVENUE FUND | | | | | |
| Estimated Revenue | $ 92,500 | $ 823,000 | $ 909,628 | | $1,825,128 |
| Actual Revenue | 38,882 | 491,150 | 758,922 | | 1,288,954 |
| Collections Over (Under) Estimate | $(53,618) | $(331,850) | $(150,706) | | $ (536,174) |
| NONEXPENDABLE TRUST FUNDS | | | | | |
| Estimated Revenue | | | | $ 743,001 | $ 743,001 |
| Actual Revenue | | | | 490,758 | 490,758 |
| Collections Over (Under) Estimate | | | | $(252,243) | $ (252,243) |
| Fiscal Year 1994-95 | | | | | |
| SPECIAL REVENUE FUND | | | | | |
| Estimated Revenue | $ 80,000 | $641,000 | $ 799,852 | | $1,520,852 |
| Actual Revenue | 6,925 | 579,401 | 676,687 | | 1,263,013 |
| Collections Over (Under) Estimate | $(73,075) | $(61,599) | $(123,165) | | $ (257,839) |
| NONEXPENDABLE TRUST FUNDS | | | | | |
| Estimated Revenue | | | | $525,000 | $ 525,000 |
| Actual Revenue | | | | 500,577 | 500,577 |
| Collections Over (Under) Estimate | | | | $(24,423) | $ (24,423) |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-7.

MONTANA ARTS COUNCIL
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES & TRANSFERS OUT
BY OBJECT & FUND - BUDGET & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1995

| | 1995 Promotion of The Arts | 1994 Promotion of The Arts |
|---|---|---|
| PERSONAL SERVICES | | |
| Salaries | $ 238,597 | $ 241,042 |
| Hourly Wages | 681 | |
| Other Compensation | 7,525 | 4,650 |
| Employee Benefits | 66,484 | 65,003 |
| Total | 313,287 | 310,695 |
| OPERATING EXPENSES | | |
| Other Services | 94,140 | 94,508 |
| Supplies & Materials | 21,097 | 12,077 |
| Communications | 33,643 | 33,222 |
| Travel | 49,362 | 61,147 |
| Rent | 25,897 | 25,604 |
| Repair & Maintenance | 3,521 | 2,657 |
| Other Expenses | 20,313 | (17) |
| Total | 247,973 | 229,198 |
| EQUIPMENT AND INTANGIBLE ASSETS | | |
| Equipment | 790 | 3,388 |
| Total | 790 | 3,388 |
| GRANTS | | |
| From State Sources | 431,873 | 445,443 |
| From Federal Sources | 379,152 | 442,062 |
| From Other Sources | 6,925 | 26,382 |
| Total | 817,950 | 913,887 |
| TRANSFERS | | |
| Accounting Entity Transfers | 49,952 | 70,444 |
| Total | 49,952 | 70,444 |
| TOTAL PROGRAM EXPENDITURES | $1,429,952 | $1,527,612 |
| GENERAL FUND | | |
| Budgeted | $ 130,030 | $ 123,243 |
| Actual | 130,030 | 122,837 |
| Unspent Budget Authority | $ 0 | $ 406 |
| SPECIAL REVENUE FUND | | |
| Budgeted | $2,111,108 | $2,813,303 |
| Actual | 1,299,922 | 1,404,775 |
| Unspent Budget Authority | $ 811,186[1] | $1,408,528[1] |

[1] See note 6 on page A-9.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-7.

# Notes to the Financial Schedules

## For the Two Fiscal Years Ended June 30, 1995

### 1. Summary of Significant Accounting Policies

**Basis of Accounting**

The council uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Funds. In applying the modified accrual basis, the council records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the council incurs the related liability and it is measurable.

State accounting policy also requires the council to record the cost of employees' annual leave and sick leave when used or paid.

The council uses accrual basis accounting for the Nonexpendable Trust Fund. Under the accrual basis, as defined by state accounting policy, the council records revenues in the accounting period earned if measurable and records expenses in the period incurred, if measurable.

Expenditures and expenses may include entire budgeted service contracts even though the council received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

**Basis of Presentation**

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. The council uses the following funds:

**Governmental Funds**

**General Fund** - to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Fund** - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. The council uses these funds for grants from the National Endowment for the Arts and the cultural and aesthetics program.

**Fiduciary Funds**

**Trust Funds** - to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. The council's Nonexpendable Trust Fund is the Cultural Trust Fund. A portion of coal severance tax collections is deposited in this fund and earnings from the fund are used for cultural and aesthetics projects.

## 2. Annual and Sick Leave

Employees at the council accumulate both annual and sick leave. The council pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in accompanying financial schedules. The council absorbs expenditures for termination pay in its annual operational costs. At June 30, 1994 and at June 30, 1995, the council had a compensated absence liability of $32,038 and $40,485, respectively.

## 3. Pension Plan

Employees are covered by the Montana Public Employees' Retirement System (PERS). The council's contribution to PERS was $16,232 in fiscal year 1993-94 and $16,045 in fiscal year 1994-95.

## 4. General Fund Balance

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.

**5. Nonexpendable Trust Fund**

The cash transfers in of $259,808 and $263,960 for fiscal years 1993-94 and 1994-95, respectively, represent the amount of coal tax moneys allocated to the Cultural Trust Fund during the fiscal years.

The amount of coal tax money transferred to the Nonexpendable Trust Fund in fiscal year 1992-93 was overstated by $103,673. This amount represented the coal tax money that by state statute, should have been put in the council's operating account in the Special Revenue Fund. The council corrected the error in fiscal year 1993-94 by recording a nonbudgeted prior year transfer out adjustment in the Nonexpendable Trust Fund and a prior year transfer in adjustment in the Special Revenue Fund.

**6. Unexpended Appropriation Authority**

Montana Arts Council grant funds are appropriated for a two year period using a continuing appropriation. This resulted in unexpended budget authority of $1,408,528 for the Special Revenue Fund on the Schedule of Budgeted Program Expenditures By Object and Fund - Budget & Actual at June 30, 1994. The unspent budget authority of $811,186 at June 30, 1995 was caused mostly from a reduction in available federal funds of $82,235 and budget reductions imposed on the Cultural and Aesthetics grants due to a Cultural Trust Fund revenue shortfall of approximately $485,000 for the biennium.

**7. Negative Fund Balance**

A negative fund balance of $933 appears on the Schedule of Changes in Fund Balances for the Special Revenue Fund at June 30, 1995. During the 1995 biennium, the Cultural Trust Fund received less investment earnings than estimated; despite self-imposed budget reductions, actual expenditures exceeded available revenue, resulting in a negative fund balance.

In House Bill 9 from the 54th Legislative Session in 1995, the legislature reduced grant appropriations by about $750,000 from the amount previously approved. The council indicated this reduced grant amount will compensate for the June 30, 1995 negative ending fund balance. Thus the council expects a positive ending fund balance in the account at June 30, 1997.

# Agency Response

MONTANA ARTS COUNCIL

MARC RACICOT, GOVERNOR

316 NORTH PARK AVENUE
CITY COUNTY BUILDING, ROOM 252

STATE OF MONTANA

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PO BOX 202201
HELENA, MONTANA 59620-2201

September 7, 1995

Mr. Scott Seacat
Legislative Auditor
PO Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

The Montana Arts Council is thrilled with the results of the financial compliance audit for fiscal years 1993-94 and 1994-95.

Our accountant, Carleen Layne, and bookkeeper, Jeanine McCarthy, deserve special praise for their attention to detail, thoroughness and excellent manner in which they manage their respective duties that helped to produce this unqualified audit with no recommendations.

Your staff was, as usual, courteous, efficient and always professional. They were also very considerate of our time as we dealt with fiscal year end.

Once again, we are so pleased by the results.

Sincerely,

Arlynn Fishbaugh

Arlynn Fishbaugh
Executive Director



"AN EQUAL OPPORTUNITY EMPLOYER"